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TREASURY FOR A/S O'BRIEN, HECHT

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TAGS: [EFIN](#) [KTFN](#) [PTER](#) [IR](#) [LY](#) [UK](#)

SUBJECT: UK WORRIED ABOUT IRAN, THEY TELL TREASURY A/S
O'BRIEN

Classified By: Acting Economic Minister Counselor Sandra Clark for reasons 1.4 b & d

11. (S/NF) SUMMARY: British officials told Patrick O'Brien, A/S for Terrorist Financing and Financial Crimes, Treasury, on September 6, that they are very worried about Iran. Both sides agreed we should continue to turn up the pressure on Iran within the context of the United Nations Security Council (UNSC), including the addition of certain banks in the next UNSC resolution, through EU mechanisms and through domestic regulatory and licensing tools. O'Brien underscored that major financial centers, such as London and Paris, could significantly elevate pressure on Iran if both governments made public statements about the recent decisions of British and French financial institutions to cut off Iranian business, as well as to highlight the general risks of doing business with Iran. O'Brien passed non-papers to all UK officials regarding the Islamic Revolutionary Guard Corps (IRGC) and IRGC-Qods Force extensive use of the Iranian state-owned banking network and Iranian state-owned Bank Melli's support for proliferation-related activity. O'Brien's visit encouraged the UK government to finally look into two Libyan Islamic Fighting Group (LIFG) individuals to be listed as supporters of terrorism the UK had placed on hold on at the UNSC 1267 Committee (Taliban/al-Qaida/UBL); they came back with ten additional names they fear are more worrisome, and have begun a dialogue with appropriate USG agencies. END SUMMARY

Iran: Time for a "Gut-Check"

12. (S/NF) Antony Phillipson, Iran Coordinator at the Foreign and Commonwealth Office (a former foreign affairs advisor to PM Blair and now the UK's point person on Iran issues) told O'Brien that "we are at the testing point" with Iran. It is "time for the international community to take a gut-check" and decide what to do about Iran's defiance of the UNSC's resolutions, Phillipson said. He relayed a conversation with Foreign Secretary Miliband who said that continuing on the same path is not a viable option; the Iranians won't wake up and pull out of Iraq and Afghanistan and stop their nuclear program; pressure on the Iranian regime must be increased." On the recent IAEA agreement, Phillipson said the EU3 3 (P5 plus 1) collectively is taking a "naive" approach to Iran.

Next steps for UNSCR: Keep up the pressure

13. (S/NF) Phillipson argued that international pressure has

had an effect on Iran, but the regime continues to pursue unsustainable policies that are detrimental to its position in the international community and unsound economic policies that create domestic hardship, as witnessed by the rationing of gasoline this past summer. He reported Prime Minister Brown's instructions to FS Milliband to "find ways to increase pressure (on the Iranians) while also describing to them how a bilateral relationship would play out if Iran changed its behavior (i.e., gave up its nuclear weapons program.) The Foreign Secretary is testing a public line describing his vision of a stable and prosperous Iran that could play a positive role in the region, while warning that the UK would not tolerate an Iran with nuclear weapons. Phillipson told O'Brien that the UK, the US and France should keep up pressure through a third UNSC resolution by aiming to include the Islamic Revolutionary Guard Corps (IRGC) to its Annex, and at a minimum, ensuring that IRGC controlled entities and IRGC-related individuals are added to the Annex.

14. (S/NF) Although the UK believes that doing everything possible through the UN is necessary, Phillipson told O'Brien that a third UNSCR might be difficult. Nick Gibbons, Secretary in the Overseas and Defence Secretariat, Cabinet

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Office (separate meeting) acknowledged that getting "buy-in" from other Europeans would not be easy. France is now "excellent" on the issue of Iran, but not sure how to go forward, said Phillipson. Germany is "completely unfocused;" the fragmented nature of Merkel's coalition makes it tough to go ahead. Russia and China will not likely be keen on a resolution. Phillipson suggested the upcoming UN General Assembly Ministerial level meetings are pivotal to obtain political commitment to the EU3 3 process.

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EU sanctions difficult

15. (S/NF) Gibbons suggested it would be hard to get EU sanctions on Iran. France, under newly-elected President Sarkozy's leadership, has taken an increasingly aggressive stance against Iran's pursuit of a nuclear weapons program, but, Phillipson added, German buy-in at the working level has yet to be achieved. Sending increasingly mixed signals from the EU are Italy and Spain, while fearful of a nuclear weapons armed-Iran, have been undermining the EU3-led policy of increasing pressure on Iran, as both governments have engaged the Iranian regime. Phillipson was dismayed that when Iran's Deputy Foreign Minister Jalili visited Italy recently, he was received by Prime Minister Prodi, rather than a junior minister as in other capitals. FS Miliband will raise the sanctions issue in the next Gymnich, Phillipson said, commenting that there is a limit as to what countries can do bilaterally to change Iran's behavior.

Targeting the Islamic Revolutionary Guard Corps (IRGC)

16. (S/NF) If a third resolution is not politically possible, a likely scenario according to Phillipson, the UK suggests two routes: 1) pursuing it anyway and proposing adding the IRGC to the Annex; 2) going after IRGC controlled-entities and IRGC-related individuals by adding them to the previous two resolutions. Even the public threat of naming IRGC-related individuals and entities is important, whether there is a realistic chance of getting them on the list or not. Gibbons told O'Brien there is an ongoing healthy debate within HMG about how far to go in the next UNSCR round. O'Brien complimented the FCO on its excellent economic impact assessment that FCO officials presented to USG officials in May 2007. The Assistant Secretary specifically pointed out the FCO's findings that the USG moral suasion campaign (private sector outreach) has produced tangible results,

major financial institutions are cutting off Iranian business due to perceived reputational risk. Most importantly, O'Brien underscored that major financial centers, such as London and Paris, could significantly elevate pressure on Iran, along with the US, if both governments produced public statements about the recent decisions of international financial institutions to cut off Iranian business, as well as to underscore the general risk of doing business with Iran. Public statements, issued from HMG, informing the international financial community about the risks of doing business with Iran would enhance the USG's initiative. Such statements may also be useful in efforts to persuade the U.S. Congress not to pass legislative proposals to require divestment of European companies doing business with Iran.

¶17. (S/NF) Additionally, O'Brien encouraged any other measures that would help persuade financial institutions and other companies into reassessing the value of maintaining their business relationships with Iran. Gibbons regretted that the UK was not able to apply domestic sanctions against Bank Saderat Plc. London based on its support of terrorism. He said the current evidence was insufficient to meet the legal threshold in the UK, but said the UK would try to go after Bank Saderat on proliferation. Paul Rankin, Head of the Financial Crime Team, Treasury (separate meeting), told O'Brien that HM Treasury is concerned about Bank Melli's illicit financial activities in the UK.

Use other tools

¶18. (S/NF) O'Brien suggested the UK increase its regulatory and licensing surveillance against UK-based Iranian banks. By strictly enforcing bank reserve requirements, and fit and proper determinations - among other safety and soundness regulations - UK regulators may be able to further curtail the activities of Iranian banks and entities. O'Brien also encouraged the UK to work closely with British companies doing business with Iran. Phillipson said major UK banks and firms understand the associated reputational risk and have pared back their activities, albeit quietly so as to not incur the wrath of either Iranian authorities or their own shareholders who would question any disengagement without the cover of a UN resolution; oil and gas companies, however, have put off

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making the big decision of disengaging, though. O'Brien also mentioned and encouraged the Financial Action Task Force's efforts to name Iran to its International Cooperation Review Group for lack of sufficient anti-money laundering and counter terrorist finance (AML/CTF) controls and compliance with AML/CTF international standards. Phillipson agreed to talk to HM Treasury to increase regulatory pressure, and to consider a public statement reinforcing the risk of doing business with Iran.

Do not let the IAEA timetable interfere with ours

¶19. (S/NF) Phillipson, concerned about the IAEA's recent deal with Iran, told O'Brien that it was important to not permit the IAEA's workplan to slow down or interfere with the EU3's own agenda. For instance, bowing to pressure to put off submission of a resolution pending some IAEA report or visit would weaken our efforts.

Terrorist finance: LIFG - A-Q merger

¶10. (S/NF) O'Brien pressed the UK to dampen effects of an impending announcement of the Libyan Islamic Fighting Group's imminent merger with Al-Qaeda. Gibbons agreed on the need to "take the sting out" of the merger announcement. Gibbons said A-Q is feeling strong and looking to increase its reach.

Simon Manley, Director for Defence and Strategic Threats, FCO told O'Brien in a separate meeting that the merger creates a stronger group in some ways, i.e. ability to reach into North Africa, but also weakens A-Q's command and control capacity. British Security Services (BSS) are monitoring an increase in travel to Pakistan and increased links between the two groups. Overtly, the UK is trying to sow dissension and doubt into the community as the merger nears; covertly they are trying to disrupt efforts, said Manley.

Shaking loose additional LIFG names

¶11. (S/NF) Gibbons told O'Brien his visit stimulated the BSS to complete an investigation (started in June) into two LIFG names the UK had placed on hold at the UNSC 1267 Committee in ¶2005. O'Brien presented UK officials with unclassified statements of the case on Khalid Salim Muftah Salamah and 'Isam Al-Din Ahmad Subaita to assist UK efforts to lift the hold. Gibbons said BSS had come up with an additional ten names that they felt warranted increased investigation and possible listing to the UNSC 1267 committee, in addition to Khalid Salim Muftah Salamah. BSS did not have enough information at present to have similar concerns about 'Isam Al-Din Ahmad Subaita, but would begin conversations with its USG counterpart to assess the evidence. O'Brien offered USG assistance either through a Secure Video Teleconference or other information sharing in order to get closure on these and other LIFG names. Gibbons promised to follow up immediately with BSS and others. The UK has not seen any re-emergence of the sanctioned LIFG company Sanabel, said Patrick Guthrie of HM Treasury.

Interpal

¶12. (S/NF) The Charity Commission opened another investigation, which is now law enforcement-based, into whether one of Interpal's trustees had links to Hamas and whether they are properly carrying out their duties. British law enforcement, including Security Services, will likely ask for their U.S. counterpart's assistance in this investigation. The UK government hopes to finish its investigation by early 2008; they could suspend the trustee, freeze accounts, or in a drastic move, transfer the funds to another charity.

UK re-organizes counter TF infrastructure - UK Charities Commission

¶13. (S/NF) The Cabinet Office and HM Treasury are re-organizing and beefing up their counter-terrorist finance capabilities. Gibbons will be taking on proliferation as well as TF issues in the Cabinet, and HM Treasury has created a small OFAC-like office, following a December 2006 visit between OFAC and HM Treasury officials, and has doubled the

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budget for asset-freezing and designations. Rankin pointed to nine asset freeze actions in the past few weeks as evidence of the success of the recent increase in attention and funding to TF. Complimenting the UK on its efforts to upgrade its CTF capabilities, O'Brien turned to the issue of the UK Charities Commission and its lack of CTF implementation. O'Brien underscored that not only the fraudulent diversion of funds is detrimental to the integrity of the charitable sector, but the possibility of a foreign terrorist organization (FTO) operating a charity poses a severe threat to the international community because it provides a recruiting and operational base to a FTO.

¶14. (S/NF) Rankin told O'Brien that HM Treasury and the Home Office have been conducting a year long study into the UK

Charities Commission's activities. The final study will be available at the end of September. Rankin further explained that in May 2007 HM Treasury and the Home Office issued a consultation document "Review of safeguards to protect the charitable sector in England and Wales from terrorist abuse," which provided the UK Charities Commission with key recommendations to shore up its CTF capabilities. Rankin acknowledged that effective oversight of the charitable sector required appropriate access to law enforcement and intelligence information. Additionally, HM Treasury has allocated the UK Charity Commission with additional funds to increase its ability to police its own sector, Rankin described a current desire within the Charity Commission to improve its awareness and capabilities to address the threat of terrorist abuse in the charitable sector.

This cable was cleared with A/S O'Brien and his staff.

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